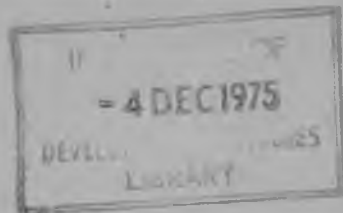




INSTITUTE OF ADULT EDUCATION
UNIVERSITY OF GHANA



I.A.E. MONOGRAPHS

No. 6: The Economic Power of Coopera-
tives in Developing Countries

and

Credit Unions In Capital Formation
Within the Cooperative System

A.M. KUSI

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Credit Unions In Capital Formation
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Published by The Institute, May 1974

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Preface

INSTITUTE OF ADULT EDUCATION MONOGRAPHS

This is one of a new series of Monographs launched by the Institute at the time of its 25th Anniversary celebrations - October-December 1973. The series is meant to circulate (among research students, university staffs, and other interested persons) a body of writing on various subjects which is always being put out by members of academic institutions like the IAE but seldom getting published for general circulation.

By the establishment of this series we hope we have embarked upon a corrective process, and that these monographs will serve the purpose of supplying a quantity of background material to many research subjects. They will not all, or always, be learned papers according to the strict academic definition of the term; they are not planned to be such, though some will in fact be learned and/or scholarly; many will be purely narrative or descriptive. Nor are they issued in strictly chronological order: No.1, for instance, carried the review history of the Institute, was written specifically for the celebrations but published after No.2, which was written in 1968.... The aim of the series is thus simply to release it as useful, helpful academic background material, for those who will find it so.

Titles in the series so far are the following:
"Twenty-Five Years of University-Based Adult Education in Ghana: A Review" (No.1) by K.A.B. Jones-Quartey; "Report on Dag Hammarskjold Seminar on the Use of Correspondence Instruction in Adult Education" (No.2) by E.A. Haizel, E.A. Mensah

and J. Opare-Abetia; "Exploring the Role of Literary Clubs and Youth Movements in Ghana Politics in the 1930s" (No.3) by Kwa O. Hagan; "The Role of Local Government in Nation Building" (No.4) by J.K. Ansere; "Awudome Rural Development Project - An Evaluation" (No.5) by Jette Bukh (Miss); "The Economic Power of Co-Operatives in Developing Countries" (No.6) by A.M. Kusi; "Mass Education and Community Development in Ghana - A Study in Retrospect, 1943-1968" (No.7) by Kwa O. Hagan; "Joint Report on 1971 Third Conference of African Adult Education Association (AAEA) and First Africa Regional Meeting of International Congress of University Adult Education at University of Dar es Salaam, Tanzania" (No.8) by J. Opare-Abetia; "Oxford University and an Adult Education Experiment in Ghana, 1947-1950" (No.9) by Kwa O. Hagan.

All the authors named above are members of staff at the Institute, and the first dozen or so of these booklets will all probably be written by such staff members, or by research personnel even if only temporarily attached to the Institute. But in time the series could well carry titles by outsiders, when and as suitable and opportune.

K.A.B. Jones-Quartey
DIRECTOR

December 1973

Legon

I. THE ECONOMIC POWER OF COOPERATIVES

In most of the developed countries today, the role played by cooperatives in maintaining a stable and buoyant economy is a major one. The importance of cooperative societies in helping to build and sustain a prosperous and balanced economy in the developing countries cannot, therefore, be overemphasized. This short paper is designed to emphasize the way cooperatives can help to develop the economy of any country, and to stimulate thought about what role Ghana's co-operative movement should play in helping to develop the country economically and otherwise.

Among the common stumbling blocks in the way of progress in underdeveloped countries can be counted the following characteristics, which are more or less relevant to conditions in Ghana today:

1. Preponderance of peasant agriculture, compared with organised industrial, commercial and service enterprises, large scale farming, and other means of production for an exchange economy;
2. lack of large capital resources for financing the establishment of well organised small and medium scale business undertakings;
3. the exploitation of the peasantry by middlemen in the field of marketing of primary products;

4. maldistribution of consumer goods as well as of simple capital goods like farm machinery, and of capital equipment, seedlings and mechanical transport;
5. the presence of poverty and ignorance among the large majority of the rural population;
6. the lack of cooperation among individuals and groups of people in pooling economic resources together in order to better their standard of living.

These drawbacks have led to the common tendency among the peoples of underdeveloped countries to rely unduly helplessly on central and local governments to relieve them of the majority of their financial, economic and social burdens. Cooperatives by their very definition are meant, and have the ability (call it "power" if you prefer that term), to resolve all, or at least many, of these economic problems in developing countries like Ghana, if they are properly managed and encouraged.

A cooperative society is in reality a special form of business organisation in which the people who own its capital also organise its activities. These members of a cooperative business unit are the suppliers of its raw materials, or goods, and at the same time the customers of its products. This is the orthodox type of cooperative society. It is a closed business unit which tries, to a very large extent, to enhance the economic

and social well-being of its members. Whether this traditional concept of a cooperative society is suitable to a developing economy like Ghana is a question to which an answer will be attempted in the course of this discussion.

Meanwhile, attention can be drawn to a well known factor, namely, the sectors of any country's economy in which cooperatives can operate for the benefit of its members and the general development of the society as a whole. There are several areas of activity in which cooperatives function in many countries. But for the purpose of those described as developing, and with particular reference to Ghana, I would here mention some of the most fertile grounds for cooperatives to concentrate their activities upon, in helping to achieve the economic development of the country.

The first is agricultural cooperatives. These may take various forms, depending on what types of farm products are to be raised and marketed. In Ghana this type is mainly restricted, on the large scale, to cocoa and to such crops as copra, rubber, shea-nuts, maize and groundnuts. As far as this writer knows, attempts have been made by Ghanaian cooperatives at the production of pigs, eggs and vegetables. For our present and future needs, agricultural cooperatives can be extended to cover milk production (particularly in the North), foodstuffs, cane sugar, banana, pine-apple and livestock other than pigs - such as cattle, sheep and goats. Among these agricultural cooperatives may be added fishing cooperatives. This is one very good example of an enterprise in which the

pooling together of small financial resources and labour would yield enormous dividends.

Cooperatives specialising in the supply of farm machinery, artificial fertilizers, seedlings and high yielding breeds of livestock are of great importance to developing countries. This would involve research and technically knowledgeable personnel to advise farmers. This type of cooperative has hitherto been neglected in Ghana.

In most less developed countries where the pyramid of economic development has agriculture as its broad base, small farmers require not only financial assistance and credit facilities, but also protection against harvest failures, destruction of crops and animals by insects, fire, thunder-storms, floods and earthquakes. The unforeseen disasters to which farmers and/or small industrial plants are exposed can be taken care of by mutual assistance credit and insurance cooperatives. The role of co-operative banks cannot be taken lightly.

To assist in correcting the uneven distribution of necessary consumer goods, cooperative shops, popularly known as consumer cooperatives, are of prime importance. They are, to my mind, the best means of helping the rural population in obtaining their daily necessities, and also of redeeming them from undue exploitation by middlemen and other pedlers. Consumer cooperative societies have failed in Ghana, and they do not generally last much in some developing countries, because, among other things, they are wrongly established on amateur bases in urban areas, in competition with well established, large trading firms which often have the monopoly of importing most

consumer goods. Consumer cooperatives can embrace the even distribution of local foodstuffs.

Another activity which cooperatives can undertake in the process of development is the provision of housing, i. e. , Cooperative Building Societies. Here a lesson can be taken from the Netherlands, where there are some 1,170 cooperative building societies whose members are in the main the tenants. These organisations as a rule build with the help of government loans, credit from insurance companies, mortgage banks and trade unions.

Industrialisation, without a doubt, is one important aspect of development in a backward country. Industrial cooperative societies embarking on the processing of primary products are of prime importance in a country like Ghana. There can be such societies for vegetable oil processing, sawn timber, tanning of hides, slaughtering of cattle, baking of bread, cane basketry, pottery, weaving of cloth and fishing nets, tailoring, wood carving and the processing of latex for rubber. I have deliberately left out the industrial sectors, which initially require huge capital outlays.

We should learn from some East African countries, where cooperatives produce butter, coffee, corned beef and other tinned foods (which require at the onset large machinery and equipment), and heavy imported raw materials. But here we must not be deceived. Most of these so-called cooperatives, we learn, are owned and financed, not by small peasant farmers but by large capitalistic estate owners who, wanting to dodge taxes on companies, hide under the cooperative ordinance to benefit from its special privi-

leges. We shall discuss this when we come to the role of government.

Another way by which cooperatives in Ghana and in any developing country can be of help in improving the welfare of the people is through the dissemination of education in co-operatives. And this perhaps is the most important aspect of the work of the cooperative movement. The aim of ordinary education is to prepare the citizen to be able to live in his environment. In the words of the late Mrs. Charity Flawoo, "the purpose of education is to make a man fit to live with". Cooperative education must, therefore, aim at producing men with self-reliance and team spirit.

In Ghana this branch of education is the responsibility of the Alliance of Ghana Cooperatives. At the international level is the International Cooperative Alliance, which tries to spread cooperative education throughout the world. Cooperative education involves research, public relations, publications, film shows, lectures and seminars. Formal cooperative education can be undertaken in cooperative schools and colleges for the training of staff and members. This education can be made to go hand in hand with general education in developing countries.

Let me give a few examples taken from Louis P. F. Smith's book on The Evolution of Agricultural Cooperation, published by Mowbrag & Co., Oxford, 1961. It says:

- (a) In France there are school children's cooperatives, with 722,900 members. There are similar ones in Ceylon and

the U.S.A.;

- (b) Cooperation is made a compulsory subject in some schools in the U.S.A. and Argentina;
- (c) At the university level there is a Department of Cooperative Studies (Universite Libre of Brussels) in Brussels, in America, France and Colombo;
- (d) In Israel cooperation is a compulsory subject for the M.A. (Econ.) degree in the University of Tel-Aviv.

This poses a challenge to the new universities in the developing countries. I feel it is time an end was put to the mere slogan of "Go back to the land". Our universities should not devote all their time in analysing the works of Livy, Shakespeare, Plato, Einstein, Lord Keynes, Mozart, etcetera; they should, in addition to the traditional academic exercises, try to help to inculcate the spirit of team-work and the fundamentals of democratic control through cooperative studies.

Cooperatives in general have the special merit of effecting economic and social development by undertaking to operate in some branches of activity in which the public sector may find it inexpedient to commit public funds. They may also enter into certain lines of commercial and social activity in which private competition is weak and unprofitable, but which may, nevertheless, form an essential medium for meeting much needed services for certain sections of the community. Cooperative

activities on the whole supplement economic development efforts made by both the public and the private sectors of developing countries.

In the furtherance of the aims and objectives of the cooperative movement in developing countries, I think it would be wise to start with some international regional cooperative councils, to discuss common problems and methods of production, the marketing of produce, the sharing of research facilities, and the like. Such councils, besides their obvious economic advantages, would also help to promote healthy political, educational and social relationships between neighbouring countries. Cannot the whole of West Africa, for example, manage with one such international regional cooperative council? In Europe, cooperatives in the countries belonging to the European Economic Community (the Common Market) have started this type of council, which is even trying to break through the tariff frontiers imposed by the E.E.C.

Let us now turn to the relationship of governments to cooperatives in developing countries. This by itself is a wide subject which demands careful and detailed study. Let me, however, start by saying that this relationship in any country would be determined by two major factors:

- (a) the political ideology of the particular country, and
- (b) the economic development programme to which that country is committed.

Broadly speaking, since cooperatives form part of the general economic activity of a country, they

are invariably subject to the overall supervision of any government agency responsible for the timebeing for economic direction in the country as a whole. This is a condition which the cooperative movement must accept. On the other hand the government, no matter its aims and policies, must recognise the existence of cooperation as a necessary and - when properly operated - viable economic institution that must not only be encouraged but also assisted.

This leads on to the crucial question of how far the government of a developing country should assist cooperatives financially and otherwise with-out:

1. interfering unduly in their administration and control,
2. favouring unduly a sector of the population (i. e. , cooperative members) at the expense of all other sectors, and
3. creating legal monopolistic economic institutions (i. e. , cooperatives) or units in the country.

I am personally of the opinion that a cooperative society is a special form of business organisation which should be left alone as far as its administration is concerned. And while holding that cooperative societies need guidance, protection and assistance from the state, I believe even more that governments in developing countries should refrain from making them economically spoilt children by spoon-feeding them all the time. Like

any other infant industry and business undertaking, they deserve assistance in the initial stages; but after that they must be able to stand on their own feet and compete with all other existing industrial and commercial businesses in the country.

Cooperatives must therefore be managed by men who have had thorough cooperative schooling. Managing directors, secretaries, chairmen, treasurers and all other public and private business organisations. I feel the time has come when a stop must be put to the old idea of carrying out the principle of democratic control to an extremely uneconomic limit. By all means let the members in their general meetings wield the final power, but the day-to-day running of cooperatives should be entrusted to qualified, full-time, paid officers, and not to amateurs who in the name of democratic initiative elevate their personal interests over those of the other members.

This brings us to the question posed earlier as to whether the orthodox type of cooperative business units whose sole aim is to seek the welfare of their members is suitable for a developing country. I think the answer is no. Since a cooperative society is a business unit, it should be able to compete with similar business organisations in the community. It would therefore be useful for the cooperative society to open its doors to the general public to do business with it, and not to make it a closed-shop affair. The citizens of a developing country would not only benefit from the services of a cooperative society but would also learn the lesson of pooling their resources together for the general economic development of their country. This is

practised in Holland, Switzerland and Austria, where cooperative shops, factories and farm research units benefit everybody who cares to make use of these services.

Again cooperative societies, particularly in the developing countries, should try to refrain from the traditional habit of sharing profits annually (i. e. bonus), and rather plough back their annual earnings for the expansion of their business, or invest in new fields of the country's economy. Again examples can be cited from the continent of Europe, where farmers' cooperatives have been able to expand their businesses, from the sale of fertilizers to the running of industries producing milk, butter, cheese, and biscuits, and from there on to the establishment of departmental stores marketing these products.

The Ghana cooperative movement has to fulfil adequately its essential role of helping to develop the country's economy. The ordinary members, who actually own the cooperatives, should in turn receive commensurate rewards for the very good work some of the individual units are doing, especially when this can be said of their operations in rural areas.

II. CREDIT UNIONS IN CAPITAL FORMATION

In most countries of the Third World, that is, in the developing countries of Africa, Asia and Latin America, the need for capital for the development of various economic and social projects is generally accepted as one of the major problems. These young nations require huge capital resources to enable them to undertake national development programmes, aimed at raising the living standards of their people and maintaining sustained economic growth within the shortest possible time.

Even without indulging in high economic or political analysis, one can easily see that developing countries require large financial resources for all their projects. Schools and institutions of higher education have to be expanded and their quality improved upon. Roads and other means of transportation and communication demand not only skilled personnel for their construction and maintenance but also heavy capital investment for those very provisions, and money has generally to be available for the creation of good health facilities for the citizens of these countries.... Let us conclude this short list of development needs by mentioning the importance of building industries and creating job opportunities for the ever growing population, this latter being the only way to increase the per-capita income of these developing countries.

Whenever people talk about the need to raise the economy of an underdeveloped country, however, they often fall into the temptation of thinking that only grand national projects constitute progress in any country.

There are two main sectors or agencies for national economic progress:

- (a) the Public Sector - i. e. the central government and its main agencies, supported from the national exchequer; and
- (b) the Private Sector - comprising (1) individuals pursuing their own economic activities, and (2) groups of people, such as companies, partnerships, and other business associations and co-operatives, all working together for their common economic welfare.

No country, however rich in national income, can develop or raise the standard of living of its people, if the individuals themselves are poor and have no adequate means of improving their means or providing some at least of their social and economic needs. Kuwait as a state is one of the richest in the world, but the standard of living of its ordinary people is among the lowest.

Such a state of affairs demands self-help programmes. And here comes in the importance of cooperative societies, of which Credit Unions are a prime example and of prime importance. That importance lies in the role of the credit union as one of the means of reducing the poverty and financial burdens of the masses of peasants and of other working groups in any country. But first let us see what financial resources individuals in any country can fall upon to better their economic conditions.

There are:

- (1) State employment, and social facilities like

roads, schools, hospitals, water supply, and sometimes social security schemes to cater for the old, the sick and the unemployed;

- (2) money lenders - comprising private banks and individuals whom poorer people, or small businessmen like peasant farmers, can approach for financial assistance.

It can be agreed that no government can solve every financial problem of any of its citizens; so there are these banks and private money lenders to help.

But these have their own interests to protect, and often either ask for collaterals or charge high interest rates, or both. The majority of people in the lower income group and in small private business can hardly obtain loans from these sources for their needs and for establishing lucrative businesses as well, because of these conditions. The only alternative left to the average citizen to help himself and the national economy is to save part of his meagre income. But how long would it take an office clerk to accumulate savings to the tune of £500, say, to enable him to obtain a bank loan of, say again, another £1,000, so as to start a small business of his own?

This is where credit unions come in: credit unions can solve this problem! Small savings put together by a number of people into a common pool can grow into an enormous account, from which loans could be given out to the members of that union to start businesses of their own without having to pay exorbitant interests. By this, not only would the living standards of the people be raised but also the national economy would be put on a sound footing.

Credit unions, if properly run, can even invest the

large sums of money at their disposal in big national as well as private undertakings, thus helping to create job opportunities which reduce unemployment. If credit unions, besides granting loans to their members, save the surplus cash in commercial banks, both the government and other private individuals, as well as bigger business units, would have access to further credit from the banks for the still upward movement of the national economy. Besides the physical benefits that they bestow on this economy, credit unions create in the minds of the people the spirit of frugality and help to raise a population who are well disposed towards investment, for, after all, in many respects "savings" is synonymous with investment.

These few points apply with equal force to conditions obtaining in Ghana. In order to maintain a buoyant national economy, the government has regularly had to obtain various foreign loans and aid. It is plain common sense that any nation that relies on foreign aid and foreign loans becomes a pawn in the hands of its creditors. If savings by the citizens of Ghana are encouraged, there would be more local capital upon which the government can fall to carry out many of its development projects. Thus Ghana's domestic debt would increase; but its foreign debts would also shrink to the lowest possible level - a much less burdensome position.

In a series of group discussions recently, the development of credit unions in Ghana was a theme within which mention was made of the Nandom Credit Union and of the one at Sekondi for railway and harbours workers popularly known as RACOMAS - Railway Cooperative Mutual Assistance Society. Small savings by groups of people are thus not new to Ghanaian society. We know of the various MMOA KUW and of SUSU, practised by workmen. One should also mention that before the well

remembered "Dawn Broadcast" of April, 1962, which "abolished" the cooperative movement in Ghana - by then quite well-established - every cooperative society was a sort of credit union. Farmers made small savings in their marketing cooperative societies, which were affiliated to the Ghana Cooperative Bank. There were also various Thrift and Loan Societies scattered all over the country. Farmers could then obtain loans at the village level to tide them over their off-season financial difficulties....

It is a healthy sign and in the interest of the national economy that credit unionism in Ghana persists, in spite of obstacles. And credit unions in Ghana to-day should not confine their activities to just releasing loans to their members. It would be even more beneficial to the economy of the nation if they could combine saving with profitable investment in other fields of economic pursuit. For example, if credit unions could run food producing farms on their own with their surplus savings, they would be contributing significantly to the improvement of the national economy.



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